Supreme Court, U.S.
FILED

10-602 NOV 4 2010

OFFICE OF THE CLERK

No. 10-____

IN THE
***Supreme Court of the United States***

SUPER DUPER, INCORPORATED,
D/B/A SUPER DUPER PUBLICATIONS,
*Petitioner,*

v.

MATTEL, INCORPORATED,
*Respondent.*

*ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT*

# PETITION FOR WRIT OF CERTIORARI

THOMAS ZELLERBACH
KHAI LEQUANG
ORRICK, HERRINGTON
& SUTCLIFFE LLP
1000 Marsh Road
Menlo Park, CA 94025
(650) 614-7400

E. JOSHUA ROSENKRANZ
*Counsel of Record*
MARK DAVIES
ORRICK, HERRINGTON
& SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10103
jrosenkranz@orrick.com
(212) 506-5000

## QUESTIONS PRESENTED

This case presents two related questions concerning a district court's authority under the Lanham Act, 15 U.S.C. § 1117(a), to award a plaintiff the defendant's "profits":

1. Whether a district court may award a plaintiff the defendant's profits in the absence of a finding that the defendant intentionally infringed the plaintiff's mark?

2. Whether a district court may award a plaintiff the defendant's profits in the absence of a finding that customers were actually confused by the defendant's infringement?

## PARTIES TO THE PROCEEDINGS

Petitioner Super Duper, Inc., doing business as Super Duper Publications, was the plaintiff-appellant in the courts below. Respondent Mattel, Inc. was the defendant-appellee in the courts below.

## CORPORATE DISCLOSURE STATEMENT

Super Duper, Inc. is neither a subsidiary nor affiliate of any publicly owned corporation. No corporation owns any of its stock.

## TABLE OF CONTENTS

QUESTIONS PRESENTED ..... i
PARTIES TO THE PROCEEDINGS ..... ii
CORPORATE DISCLOSURE STATEMENT ..... ii
TABLE OF CONTENTS ..... iii
TABLE OF AUTHORITIES ..... vi
OPINIONS BELOW ..... 1
JURISDICTION ..... 1
STATUTORY PROVISIONS INVOLVED ..... 1
INTRODUCTION ..... 2
STATEMENT OF THE CASE ..... 3
REASONS FOR GRANTING THE PETITION ..... 10
I. THE CIRCUITS ARE DIVIDED OVER THE CRITERIA FOR AWARDING PROFITS UNDER THE LANHAM ACT ..... 11
A. Six Circuits Do Not Require Intentional Infringement Or Actual Confusion ..... 11
B. Six Circuits Require Intentional Infringement Or Actual Confusion Or Both ..... 13
II. THE LANHAM ACT REQUIRES PROOF OF INTENTIONAL INFRINGEMENT AND ACTUAL CONFUSION FOR AN AWARD OF PROFITS ..... 18

A. A Plaintiff Must Prove Intentional Infringement For An Award Of Profits ..... 18

B. A Plaintiff Must Prove Actual Confusion For An Award Of Profits ..... 20

C. Due Process Principles Confirm That A Plaintiff Must Prove Intentional Infringement And Actual Confusion For An Award Of Defendant's Profits ..... 23

III. THE CRITERIA FOR AWARDING PROFITS UNDER THE LANHAM ACT IS A QUESTION OF RECURRING AND SUBSTANTIAL IMPORTANCE ..... 24

IV. THIS CASE IS AN IDEAL VEHICLE TO CLARIFY THE CRITERIA FOR AWARDING PROFITS UNDER THE LANHAM ACT ..... 26

CONCLUSION ..... 27

APPENDIX ..... 1a

OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT ..... 1a

OPINION OF DISTRICT JUDGE HENRY F. FLOYD, UNITED STATES DISTRICT COURT, DISTRICT OF SOUTH CAROLINA ..... 18a

ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT ON PETITION FOR REHEARING EN BANC ..... 29a

AMENDED JUDGMENT AND PERMANENT INJUNCTION, DISTRICT JUDGE HENRY F. FLOYD, UNITED STATES DISTRICT COURT, DISTRICT OF SOUTH CAROLINA ..... 31a

VERDICT FORM IN THE UNITED STATES DISTRICT COURT, DISTRICT OF SOUTH CAROLINA ..... 41a

# TABLE OF AUTHORITIES

## FEDERAL CASES

*Adray v. Adry-Mart, Inc.*,
76 F.3d 984 (9th Cir. 1995) ..... 15

*Aktiebolaget Electrolux v. Armatron Int'l, Inc.*,
999 F.2d 1 (1st Cir. 1993).....13, 14

*ALPO Petfoods, Inc. v. Ralston Purina Co.*,
913 F.2d 958 (D.C. Cir. 1990) .....15, 16, 22, 23

*Badger Meter, Inc. v. Grinnell Corp.*,
13 F.3d 1145 (7th Cir. 1994) ..... 21

*Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*,
750 F.2d 903 (Fed. Cir. 1984)..... 22

*Banjo Buddies, Inc. v. Renosky*,
399 F.3d 168 (3d Cir. 2005).....11, 17, 19

*Bishop v. Equinox Int'l Corp.*,
154 F.3d 1220 (10th Cir. 1998) ..... 15

*Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,
489 U.S. 141 (1989) ..... 10

*Burger King Corp. v. Mason*,
855 F.2d 779 (11th Cir. 1988) .....13, 22

*Cannon v. University of Chicago*,
441 U.S. 677 (1979) ..... 19

*Century Distilling Co. v. Cont'l Distilling Corp.*,
205 F.2d 140 (3d Cir. 1953) ..... 11

*Conopco, Inc. v. May Dep't. Stores Co.*,
46 F.3d 1556 (Fed. Cir. 1994) ..... 16

*Estate of Bishop v. Equinox Int'l Corp.*,
256 F.3d 1050 (10th Cir. 2001) ..... 15

*Fleischmann Distilling Corp. v. Maier Brewing Co.*,
386 U.S. 714 (1967) .....11, 12

*George Basch Co. v. Blue Coral, Inc.*,
968 F.2d 1532 (2d Cir. 1992).....14, 17, 23

*G.H. Mumm Champagne v. E. Wine Corp.*,
142 F.2d 499 (2d Cir. 1944) ..... 21

*Gracie v. Gracie*,
217 F.3d 1060 (9th Cir. 2000) ..... 15

*Inwood Labs., Inc. v. Ives Labs., Inc.*,
456 U.S. 844 (1982) .....18, 19

*Malletier v. Dooney & Bourke, Inc.*,
500 F. Supp. 2d 276 (S.D.N.Y. 2007) ..... 20

*Maltina Corp. v. Cawy Bottling Co.*,
613 F.2d 582 (5th Cir. 1980) ..... 13

*Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*,
316 U.S. 203 (1942) ..... 20

*Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*,
754 F.2d 738 (7th Cir. 1985) .....21, 22

*Pac. Mut. Life Ins. Co. v. Haslip*,
499 U.S. 1 (1991) .....22, 23

*Qualitex Co. v. Jacobson Products Co.*,
514 U.S. 159 (1995) ..... 10

*Quick Techs., Inc. v. Sage Grp. PLC*,
313 F.3d 338 (5th Cir. 2002) .....12, 17, 19

*Roulo v. Russ Berrie & Co.*,
886 F.2d 931 (7th Cir. 1989) ..... 12

*Securacomm Consulting, Inc. v. Securacom Inc.*,
166 F.3d 182 (3d Cir. 1999)..... 14

*Super Duper, Inc. v. Mattel, Inc.*, No. 09-1397,
2010 WL 2340250 (4th Cir. June 10, 2010) ..... 1

*Synergistic Int'l, LLC v. Korman*,
470 F.3d 162 (4th Cir. 2006) .....*passim*

*Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*,
282 F.3d 23 (1st Cir. 2002)..... 14

*Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*,
951 F.2d 684 (5th Cir. 1992) ..... 12, 13

*Traffix Devices, Inc. v. Mktg. Displays, Inc.*,
532 U.S. 23 (2001) ..... 25

*Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*,
529 U.S. 205 (2000) ..... 10

*Web Printing Controls Co. v. Oxy-Dry Corp.*,
906 F.2d 1202 (7th Cir. 1990) ..... 12

*Wesco Mfg., Inc. v. Tropical Attractions of Palm Beach, Inc.*,
833 F.2d 1484 (11th Cir. 1987) ..... 13

*Wynn Oil Co. v. Am. Way Serv. Corp.*,
943 F.2d 595 (6th Cir. 1991) ..... 12

**FEDERAL STATUTES**

15 U.S.C. § 1051 ..... 7

15 U.S.C. § 1052 ..... 5

15 U.S.C. § 1057(b) ..... 5

15 U.S.C. § 1065 ..... 5

15 U.S.C. § 1114 ..... 5

15 U.S.C. § 1117(a) ..... *passim*

15 U.S.C. § 1125(c) ..... 1, 7, 9, 20

15 U.S.C. § 1127 ..... 1

28 U.S.C. § 1254(1) ..... 1

Trademark Amendment Act of 1999, Pub. L. No. 106-43, § 3(b), 113 Stat. 218 (1999) ..... 19

**MISCELLANEOUS**

Danielle Conway-Jones, *Remedying Trademark Infringement: The Role of Bad Faith In Awarding An Accounting of Defendants' Profits*, 42 SANTA CLARA L. REV. 863 (2002) ..... 25

David S. Almeling, *The Infringement-Plus-Equity Model: A Better Way to Award Monetary Relief in Trademark Cases*, 14 J. INTELL. PROP. L 205 (2007) ..... 17

Eugene W. Luciani, *Note, Does The Bad Faith Requirement In Accounting of Profits Damages Make Economic Sense?*, 6 J. INTELL. PROP. L 69 (1998) ..... 25

HARRY D. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS 1078 (3d ed. 1929) ..... 18

J. GILSON, TRADEMARK PROTECTION AND PRACTICE § 14.03[6][c](i) (2005) ..... 25

J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARK AND UNFAIR COMPETITION § 30 (4th ed. Supp. 2010) ..... 20, 25

James M. Koelemay, *Monetary Relief for Trademark Infringement Under the Lanham Act*, 72 TRADEMARK REP. 458 (1982) ..... 17, 23

Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271 (1997) ..... 17

Kenneth L. Port, *The Illegitimacy of Trademark Incontestability*, 26 IND. L. REV. 519, 520 (1993) ..... 19

Mark A. Thurmon, *Confusion Codified: Why Trademark Remedies Make No Sense*, 17 J. INTELL. PROP. L. 245, 283 (2010) ..... 18

Robert C. Denicola, *Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995*, 59 LAW & CONTEMP. PROBS. 75 (1996) ..... 19

S. Rep. No. 79-1333 (1946), *as reprinted in* 1946 U.S.C.C.A.N. 1274 ..... 18, 19, 24

JUDICIAL BUSINESS OF THE U.S. COURTS, http://www.uscourts.gov/Statistics/JudicialBusiness.aspx ..... 25

## OPINIONS BELOW

The opinion of the United States Court of Appeals for the Fourth Circuit was entered on June 10, 2010, and is available at 2010 WL 2340250 (4th Cir. 2010), and reprinted at App. 1a-17a. The order granting defendant's motion for increased profits pursuant to 15 U.S.C. § 1117 is reprinted at App. 18a-28a.

## JURISDICTION

The judgment of the court of appeals was entered on June 10, 2010. The court of appeals denied a timely petition for rehearing or rehearing *en banc* on July 7, 2010. App. 29a-30a. On August 20, 2010, the Chief Justice extended the time for filing this petition to November 4, 2010. The Court has jurisdiction under 28 U.S.C. § 1254(1).

## STATUTORY PROVISIONS INVOLVED

The Lanham Act was intended to make "actionable the deceptive and misleading use of marks," and "to protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. Section 35(a), codified at 15 U.S.C. § 1117(a) (emphasis added), provides:

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall

be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover

(1) defendant's profits,
(2) any damages sustained by the plaintiff, and
(3) the costs of the action.

The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. **If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty.** The court in exceptional cases may award reasonable attorney fees to the prevailing party.

## INTRODUCTION

This case presents an ideal opportunity for the Court to resolve one of the most entrenched and important disputes in all of trademark law. As circuit courts and commentators have recognized, the circuits are divided over the criteria for

awarding a plaintiff the defendant's "profits" due to trademark infringement. Six appellate courts permit an award of profits without any evidence of either intentional infringement or actual customer confusion. Six other appellate courts, however, insist on either a finding of intentional infringement or a finding of actual confusion or both. Virtually every trademark suit includes a request for defendant's profits, and the division over the criteria for awarding profits is causing great disharmony in federal trademark law.

In this case, the Fourth Circuit has condoned a grave misuse of the profits provision. The jury rejected Mattel, Incorporated's claims that Super Duper, Incorporated intentionally infringed any of its trademarks and Mattel never attempted to show any damages from actual customer confusion. Nevertheless, the Fourth Circuit upheld a $1 million profits award. The petition should be granted.

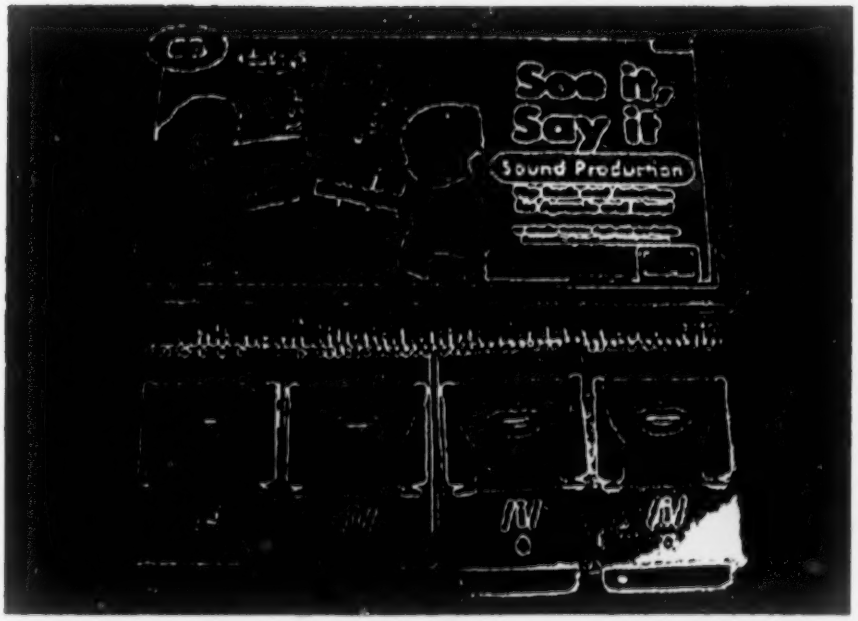
## STATEMENT OF THE CASE

Petitioner Super Duper is a developer and distributor of pedagogical tools for children with special needs. Court of Appeals Joint Appendix ("J.A.") 534-41. Super Duper was founded by Thomas and Sharon Webber over twenty years ago, upon Sharon Webber's completion of her master's degree and certification in speech and language pathology. J.A. 532-34. Since its founding, Super Duper has grown from a small "mom-and-pop" operation, run out of the Webbers' spare room, to a

substantial operation with a campus of over 100,000 square feet. J.A. 534-55, 581-83.

Super Duper's products are designed to help children overcome a wide range of speech-related challenges, from simple articulation problems to difficulties with stuttering due to neurological disorders such as apraxia, which can severely impair a person's speech. J.A. 551-63.

As would be expected of a company in the field of speech therapy, Super Duper has used the word "say" in describing and marketing its products to schools and speech pathologists. For example, Super Duper products include: a flip-book with accompanying workbook providing articulation exercises (SEE IT! SAY IT!), educational audio cassettes with accompanying song books designed to help improve hearing and fluency (SAY AND SING), a vocabulary game that involves plastic fish, fishing rods, and a tackle box (FISH AND SAY/FISH & SAY), and a magnetic board game with removable magnetic square pieces that help students absorb phonetic, hearing and fluency lessons (SORT AND SAY/SORT & SAY/SAY AND SORT). J.A. 534-38, 1629-34. Here is a picture of the flip-book product:




J.A. 1629-30.

Super Duper applied for and received federal trademark registrations for several product names using the word "say," including SAY AND DO, SEE IT! SAY IT! and FOLD & SAY. J.A. 799-816.[1]

Respondent is Mattel, the world's largest toy company. Mattel sells a family of "pull toys" under the "SEE 'N SAY" mark. These toys are plastic, circular toys bearing depictions of various figures

[1] Registration of a mark under § 2 of the Lanham Act, 15 U.S.C. § 1052, enables the owner to sue an infringer under § 32, 15 U.S.C. § 1114; it also entitles the owner to a presumption that its mark is valid, *see* § 7(b), 15 U.S.C. § 1057(b), and ordinarily renders the registered mark incontestable after five years of continuous use, *see* § 15, 15 U.S.C. § 1065.

BEST AVAILABLE COPY

(such as animals), an arrow that can be directed to point at the figures and a string that can be pulled to trigger a prerecorded statement about the figure to which the arrow is pointing (such as "the cow says moo"). J.A. 44-63. Here is an image of one pull toy:

J.A. 1635-36.

Super Duper's marks and Mattel's marks were both used for many years. Super Duper does not make "pull toys" or any other toys.

In 2004, Mattel initiated proceedings with the Trademark Office to oppose several applications and cancel several registrations of Super Duper's marks that include the word "say." Thereafter, Super Duper sought a declaratory judgment from the United States District Court of the District of

South Carolina that its marks do not violate Mattel's trademark rights. J.A. 64-79.

Mattel filed counterclaims under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, alleging that fifteen of Super Duper's marks violated Mattel's rights in four marks (SEE 'N SAY; SEE 'N SAY JUNIOR; SEE 'N SAY BABY; THE FARMER SAYS). J.A. 235-36, 409. Mattel alleged (1) trademark infringement; (2) unfair competition; and (3) trademark "dilution by blurring."[2] Mattel sought over $10 million in monetary relief, including an award of Super Duper's profits. J.A. 425, 1974.

The action was tried before a jury. On the infringement counts, the jury found that seven of Super Duper's marks infringed Mattel's four marks. App. 42a.[3] The jury found, however, that Super Duper did not engage in unfair competition and that the infringement was not intentional.

---

[2] Dilution by blurring means that there was an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." 15 U.S.C. § 1125(c)(2)(B). Dilution may be found "regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury." 15 U.S.C. § 1125(c)(1).

[3] The marks found to infringe were: SEE IT! SAY IT!; SAY AND SING; FISH AND SAY; FISH & SAY; SORT AND SAY; SORT & SAY; SAY AND SORT. App. 42a. The marks found not to infringe were: SAY AND DO; SAY & DO; FOLD AND SAY; FOLD & SAY; SPIN, SAY & DO; SPIN, SAY AND DO; SAY & GLUE; FUN, DECK & SAY. *Id.*

App. 43a. The jury did not award Mattel any infringement damages. App. 44a.

On the trademark dilution counts, the jury found that two of Mattel's marks (SEE 'N SAY and THE FARMER SAYS) were famous, that the seven Super Duper marks were likely to dilute Mattel's marks and that the trademark dilution was intentional. App. 44a-46a. The jury awarded Mattel $400,000 of Super Duper's profits. App. 46a.

After trial, the district court increased the profits award to $999,113. App. 26a. The court relied on section 35(a) of the Lanham Act, codified at 15 U.S.C. § 1117(a), which permits a court to award a trademark plaintiff the "defendant's profits." 15 U.S.C. § 1117(a). The court justified the award as necessary to "adequately compensate [Mattel]" and to "deter [Super Duper] from future misconduct." App. 25a. The district court also "considered" the six factors for awarding profits that the Fourth Circuit had set forth in *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006).[4] App. 26a-27a. The court emphasized the intentional dilution finding and the public interest

---

[4] Under the Fourth Circuit's six factor test for awarding profits, a district court considers: "(1) whether the defendant had the intent to confuse or deceive, (2) whether the sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting its rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off." *Synergistic*, 470 F.3d at 175.

in making the misconduct unprofitable. App. 27a. The district court disregarded as "inapplicable" "whether sales have been diverted" from Mattel to Super Duper. App. 27a. The district court also awarded Mattel $2,643,844 in attorneys' fees, citing the "enhanced" profits award obtained by counsel. App. 40a, J.A. 2702-15.

Super Duper appealed. Although the court of appeals recognized that the dilution verdict was problematic, the court upheld the profits award based on the infringement verdict. The jury's dilution finding could not justify the district court's profits award because the relevant marks were in use before October 6, 2006. *See* 15 U.S.C. § 1125(c)(5)(A). Nevertheless, the court of appeals "reject[ed] Super Duper's contention that the district court erred in increasing Mattel's award of lost profits." App. 15a n.8. The court explained that the district court's decision was "consistent" with *Synergistic*. *Id.* Although the court recognized the jury had awarded no profits based on infringement, the "award of profits and attorneys' fees and costs in this case was ***independently justified*** by the jury's conclusion that Super Duper's use of seven trademarks infringed four of Mattel's preexisting marks." App. 14a (emphasis added). Thus, the court "decline[d] to exercise [its] discretion to correct the district court's error in regard to the award of profits" under the dilution laws. App. 14a.

## REASONS FOR GRANTING THE PETITION

The Lanham Act is designed to prevent "others from copying a source-identifying mark" and thereby "helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product." *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 163-64 (1995). At the same time, however, consumers "should not be deprived of the benefits of competition." *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 213 (2000). As with other intellectual property laws, the Lanham Act is a "careful balance" "between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

The profits provision of the Lanham Act reflects this delicate calibration between protecting innovation and encouraging competition. Although the Lanham Act gives district courts discretion to award the defendant's profits to the plaintiff, the Act imposes two limitations. Any award of monetary relief is "subject to the principles of equity." 15 U.S.C. § 1117(a). Moreover, any monetary award "shall constitute compensation and not a penalty." *Id.*

The courts of appeals are fundamentally divided over how the profits provision of the Lanham Act translates into criteria to guide specific profit

awards. As discussed below, six circuits do not require that a plaintiff prove willful trademark infringement or actual customer confusion, while six circuits hold that proof of willfulness or actual confusion or both is required. The meaning of the profits provision is important to the sound operation of the trademark laws. This case is an excellent vehicle for the Court to resolve the circuit disagreement.

## I. THE CIRCUITS ARE DIVIDED OVER THE CRITERIA FOR AWARDING PROFITS UNDER THE LANHAM ACT

### A. Six Circuits Do Not Require Intentional Infringement Or Actual Confusion

The Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuits do not require willful infringement or actual confusion for an award of the defendant's profits.

The Third, Sixth and Seventh Circuits have expressly rejected both intentional infringement and actual confusion as prerequisites for an award of profits. *See Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 174 (3d Cir. 2005) ("we conclude that [a] bright-line willfulness requirement has been superseded by statute"); *Century Distilling Co. v. Cont'l Distilling Corp.*, 205 F.2d 140, 146 (3d Cir. 1953) ("[T]he view that in the absence of confusion . . . there is no basis for an award of profits . . . is not, in our opinion, a correct statement of the law.") (disapproved on other grounds in *Fleischmann Distilling Corp. v. Maier*

*Brewing Co.*, 386 U.S. 714, 715 n.4 (1967)); *Wynn Oil Co. v. Am. Way Serv. Corp.*, 943 F.2d 595, 606-607 (6th Cir. 1991) (holding "there is no express requirement that the parties be in direct competition or that the infringer willfully infringe . . . to justify an award of profits" and rejecting the defendant's contention "that actual confusion . . . must be shown to justify a monetary award"); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990) ("Other than general equitable considerations, there is no express requirement that the parties be in direct competition or that the infringer willfully infringe . . . to justify an award of profits."); *Web Printing Controls Co. v. Oxy-Dry Corp.*, 906 F.2d 1202, 1205-1206 (7th Cir. 1990) (reversing and remanding judgment denying profits due solely to lack of actual confusion).

Along the same lines, the Fourth and Fifth Circuits hold that intentional infringement and actual confusion are two factors among six that are relevant to, but not dispositive of, an award of profits. "[A]lthough willfulness is a proper and important factor in an assessment of whether to make a damages award, it is not an essential predicate thereto." *Synergistic*, 470 F.3d at 175; *see Quick Techs., Inc. v. Sage Group PLC*, 313 F.3d 338, 349 (5th Cir. 2002) ("[W]e decline to adopt a bright-line rule in which a showing of willful infringement is a prerequisite to an accounting of profits."). Likewise, these circuits regard the presence of actual confusion as a consideration in favor of an award of profits but not as a requirement. *See Texas Pig Stands, Inc. v. Hard*

*Rock Cafe Int'l, Inc.*, 951 F.2d 684, 695 (5th Cir. 1992) ("[T]he diversion of sales is not a prerequisite to an award of profits.") (citing *Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 585 (5th Cir. 1980)); *Synergistic*, 470 F.3d at 176 ("[T]he fact that no sales were diverted[] should weigh against an award being made.").

The Eleventh Circuit has expressly rejected intentional infringement as a requirement for profits. *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988) ("Nor is an award of profits based on either unjust enrichment or deterrence dependent upon a higher showing of culpability on the part of defendant"). The Eleventh Circuit also holds that a "plaintiff need not demonstrate actual damage to obtain an accounting of an infringer's profits under section 35 of the Lanham Act." *Wesco Mfg., Inc. v. Tropical Attractions of Palm Beach, Inc.*, 833 F.2d 1484, 1487-88 (11th Cir. 1987).

### B. Six Circuits Require Intentional Infringement Or Actual Confusion Or Both

The First, Second, Ninth, Tenth, Federal and District of Columbia Circuits all require either intentional infringement or actual confusion or both before awarding the defendant's profits.

The general rule in the First Circuit is that "a plaintiff seeking damages must prove actual harm, such as the diversion of sales to the defendant." *Aktiebolaget Electrolux v. Armatron Int'l, Inc.*, 999 F.2d 1, 5 (1st Cir. 1993). The First Circuit,

however, also holds that "where defendant's inequitable conduct warrants bypassing the usual rule of actual harm, damages may be assessed on an unjust enrichment or deterrence theory." *Id.* But "when the rationale for an award of defendant's profits is to deter some egregious conduct, willfulness is required." *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 36 n.11 (1st Cir. 2002) (citing *Securacomm Consulting, Inc. v. Securacom Inc.*, 166 F.3d 182, 190 (3d Cir. 1999)). The First Circuit has been silent about whether intentional infringement is required for an award of profits in any other situation. *Tamko*, 282 F.3d at 36.

In the Second Circuit, a plaintiff must always prove intentional infringement to justify an award of profits. *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir. 1992) ("a finding of defendant's willful deceptiveness is a prerequisite for awarding profits."). Although actual confusion is not always a requirement for an award of profits in the Second Circuit, it is required under certain circumstances. For example, "a profits award, premised upon a theory of unjust enrichment, requires a showing of actual consumer confusion—or at least proof of deceptive intent so as to raise the rebuttable presumption of consumer confusion." *Id.* at 1538. Likewise, "under the 'damage' theory of profits, a plaintiff typically has been required to show consumer confusion resulting from infringement." *Id.* at 1539.

The Ninth Circuit holds that when a plaintiff seeks an award of profits for any reason other than

as a proxy for its lost sales, the plaintiff must prove intentional infringement. *Adray v. Adry-Mart, Inc.*, 76 F.3d 984, 988 (9th Cir. 1995) ("Adray conceded that he did not seek to recover Adry-Mart's profits as a measure of his own lost sales, since he disclaimed any intent to seek damages based on lost sales. In these circumstances, Adray could recover Adry-Mart's profits only if the infringement was willful.") (citations omitted). The Ninth Circuit does not, however, require actual confusion. *Gracie v. Gracie*, 217 F.3d 1060, 1068 (9th Cir. 2000) ("[U]nder our precedents a showing of actual confusion is not necessary to obtain a recovery of profits.") (citation omitted).

The Tenth Circuit always requires intentional infringement for an award of profits. *Bishop v. Equinox Int'l Corp.*, 154 F.3d 1220, 1223 (10th Cir. 1998) ("[A]n award of profits requires a showing that defendant's actions were willful or in bad faith.") (citation omitted). Proof of actual confusion is not a prerequisite for an award of profits. *Estate of Bishop v. Equinox Int'l Corp.*, 256 F.3d 1050, 1055 (10th Cir. 2001) ("[A] showing of actual damages is not required to recover a portion of an infringing defendant's profits in a trademark action.") (citation omitted).

Like the Second and Tenth Circuits, the D.C. Circuit always requires intentional infringement for an award of profits. *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990) ("[A]n award based on a defendant's profits requires proof that the defendant acted willfully or in bad faith.") (citations omitted). Although the

D.C. Circuit has not specifically held that actual confusion is required, it has rejected deterrence as a basis for an award of profits. *Id.* at 969 ("[W]e hold that deterrence alone cannot justify" the "severe and often cumbersome remedy of a profits award.") (citation omitted). The D.C. Circuit has also held that any monetary award should bear a causal link with the defendant's conduct. As then-Judge Thomas observed:

> [T]he court must ensure that the record adequately supports all items of damages claimed and establishes a causal link between the damages and the defendant's conduct, lest the award become speculative or violate section 35(a)'s prohibition against punishment.

*Id.* Consequently, the D.C. Circuit would not award profits in the absence of actual confusion, as there would be no "causal link" between the defendant's profits and the infringement.

In the Federal Circuit, "a plaintiff must show actual confusion" to establish entitlement to any kind of monetary relief. *Conopco, Inc. v. May Dep't Stores Co.*, 46 F.3d 1556, 1563 (Fed. Cir. 1994). The circuit has not addressed whether a plaintiff must also prove willful infringement.

* * *

Now is the time for the Court to bring clarity to the "profits" provision of the Lanham Act. As discussed above, the circuits have struggled long

and hard to establish the proper criteria for an award of profits. Each circuit has settled on criteria, but the criteria diverge fundamentally from circuit to circuit, causing several appellate courts to take note of the confusion. *See, e.g.*, *Banjo Buddies*, 399 F.3d at 174-175 (acknowledging "the wealth of contrary authority" in other circuits); *Quick Techs.*, 313 F.3d at 347-48 ("cognizant that several of our sister circuits have embraced a willfulness requirement"); *George Basch Co.*, 968 F.2d at 1537-40 ("cases are ambiguous").

Indeed, although various views about the proper criteria of the profits provision are expressed in the academic literature, there is scholarly agreement that this Court should review the question. *See, e.g.*, David S. Almeling, *The Infringement-Plus-Equity Model: A Better Way to Award Monetary Relief in Trademark Cases*, 14 J. INTELL. PROP. L. 205, 207 (2007) ("The courts themselves are split on this question."); Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271, 298 (1997) ("[T]he Supreme Court should review the question of whether the Lanham Act requires proof of bad faith in order for a trademark owner to recover any portion of an infringer's profits."); James M. Koelemay, Jr., *Monetary Relief for Trademark Infringement Under the Lanham Act*, 72 TRADEMARK REP. 458, 253-64 (1982) (hereinafter, "*Monetary Relief*") ("On the key issue of scienter, a clear split has developed among the Circuits that may warrant Supreme Court review.").

## II. THE LANHAM ACT REQUIRES PROOF OF INTENTIONAL INFRINGEMENT AND ACTUAL CONFUSION FOR AN AWARD OF PROFITS

Contrary to the decision below, an award of profits under 15 U.S.C. § 1117(a) requires proof of both intentional infringement and actual customer confusion. These requirements are necessary to provide an adequate evidentiary basis for the damages award.

### A. A Plaintiff Must Prove Intentional Infringement For An Award Of Profits

Under the prevailing common law at the time of the enactment of the Lanham Act, a plaintiff could not obtain an award of the defendant's profits without proving willful infringement. *See* Mark A. Thurmon, *Confusion Codified: Why Trademark Remedies Make No Sense*, 17 J. INTELL. PROP. L. 245, 283 (2010) ("[B]y the time the Lanham Act was enacted, one could say with some certainty that a plaintiff in a trademark case had to prove deceptive intent to obtain a defendant's profits.") (collecting cases); HARRY D. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS 1078 (3d ed. 1929) (the leading trademark treatise of the period, observing that "[a]n accounting will not be ordered where the infringing party acted innocently and in ignorance of the plaintiff's rights"). The "purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection." *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 n.2 (1982) (citing S. Rep. No. 79-

1333 (1946), *as reprinted in* 1946 U.S.C.C.A.N. 1274).[5] Because intentional infringement was already a requirement under the common law, Congress did not need to make this requirement explicit in section 1117(a). *See, e.g., Cannon v. Univ. of Chicago*, 441 U.S. 677, 699 (1979) ("In sum, it is not only appropriate but also realistic to presume that Congress was thoroughly familiar with . . . precedents from this and other federal courts and that it expected its enactment to be interpreted in conformity with them.").

To be sure, in 1999, Congress amended section 1117(a) to restrict the award of profits in dilution cases to claims for "willful" dilution. *See* Trademark Amendments Act of 1999, Pub. L. No. 106-43, § 3(b), 113 Stat. 218, 219 (1999); 15 U.S.C. § 1117(a) (1998). Thereafter, some courts held that the profits provision did not require intentional infringement because only the dilution claims were singled out by the 1999 amendment. *Quick Techs.*, 313 F.3d at 347-50; *Banjo Buddies,* 399 F.3d at 168, 174-75. But "the 1999 amendment of Lanham Act

---

[5] *See also* Robert C. Denicola, *Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995*, 59 LAW & CONTEMP. PROBS. 75, 79-80 (1996) ("Putting aside statutory innovations directly linked to the public notice provided by the Act's registration system, the Lanham Act codifies the basic common law principles governing both the subject matter and scope of protection.") (footnote omitted); Kenneth L. Port, *The Illegitimacy of Trademark Incontestability*, 26 IND. L. REV. 519, 520 (1993) ("Lanham Act's primary, express purpose was to codify the existing common law of trademarks and not to create any new trademark rights.").

§ 35(a) was not intended to change the law by removing willfulness as a requirement for an award of profits in a classic infringement case." J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARK AND UNFAIR COMPETITION § 30:62 (4th ed. Supp. 2010) (hereinafter MCCARTHY); *see also Malletier v. Dooney & Bourke, Inc.*, 500 F. Supp. 2d 276, 281 (S.D.N.Y. 2007) ("[T]he addition of 'willful violation under section 1125(c)' does not indicate that it was Congress's intention to simultaneously *sub silentio* overturn the weight of authority with respect to section 1125(a)").

### B. A Plaintiff Must Prove Actual Confusion For An Award Of Profits

Requiring proof of actual confusion for an award of profits is consistent with the traditional use of a defendant's profits as a proxy for a plaintiff's lost sales. As this Court stated long ago, "the award of profits is designed to make the plaintiff whole for losses which the infringer has caused by taking what did not belong to him." *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942).[6] Under this traditional approach, proof of actual confusion provided the necessary causal

---

[6] See also MCCARTHY § 30:64 ("Under the older, traditional view of the function of an accounting of an infringer's profits, an accounting was regarded as merely another way of measuring plaintiff's loss. An accounting was thought proper only as an indirect measure of the plaintiff's injury; that is, only if some relationship between the infringer's profits and the plaintiff's injury could be inferred.").

connection between the infringement and the remedy to justify an award of profits. *See, e.g., G.H. Mumm Champagne v. E. Wine Corp.*, 142 F.2d 499, 501 (2d Cir. 1944) ("It is of course true that to recover damages or profits, whether for infringement of a trade mark or for unfair competition, it is necessary to show that buyers, who wished to buy the plaintiff's goods, have been actually misled into buying the defendant's.").

Courts that have adopted other rationales for the profits award, such as unjust enrichment and deterrence, do not always require the plaintiff to prove "actual confusion." This is error.

The unjust enrichment rationale requires proof of actual confusion among customers. A plaintiff that cannot show actual confusion cannot attribute the defendant's profits or any lost sales to the infringement. *See, e.g., Badger Meter, Inc. v. Grinnell Corp.*, 13 F.3d 1145, 1157 (7th Cir. 1994) ("Items alleged as either unjust enrichment to the defendant or damages suffered by the plaintiff must, of course, have been caused by the infringement itself.").

Several circuits, including the Fourth Circuit, have decided not to impose an actual confusion requirement because an award of profits is, in these courts' view, sometimes justified to deter future conduct. *See, e.g., Synergistic*, 470 F.3d at 176 ("public interest in making the infringing misconduct unprofitable" may justify an award of profits); *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744 (7th Cir. 1985) ("The trial

court's primary function is to make violations of the Lanham Act unprofitable to the infringing party"); *see also Burger King Corp.*, 855 F.2d at 781 ("An accounting for profits has been determined by this Court to further the congressional purpose by making infringement unprofitable, and is justified because it . . . provides a deterrent to similar activity in the future.").

An award of profits based on deterrence contravenes section 1117(a)'s explicit admonition that any sum that the court sets for recovery of profits must constitute only "compensation and not a penalty." 15 U.S.C. § 1117(a). Deterrence is a rationale underlying punitive, not compensatory, damages. *See Pac. Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 19 (1991) (under most states' laws, "punitive damages are imposed for purposes of retribution and deterrence"). Thus, at least one circuit has rejected deterrence as a proper basis for awarding profits. *ALPO Petfoods*, 913 F.2d at 969 ("deterrence alone cannot justify" an award of profits).

Moreover, for an award of profits to constitute "compensation and not a penalty," the award of profits must be rationally related to the plaintiff's damages or the defendant's unjust enrichment. *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 917 (Fed. Cir. 1984). To be compensation, the measure of damages must "exhibit a strictly rational correlation [with] the rights appropriated." *Id.* at 920. In other words, there must be a "causal link" between the measure of damage and the infringement. *ALPO Petfoods*, 913 F.2d at 969. In

the absence of actual confusion, no such causal link is present, and the award of profits ceases to be compensation.

### C. Due Process Principles Confirm That A Plaintiff Must Prove Intentional Infringement And Actual Confusion For An Award Of Defendant's Profits

If section 1117(a) allowed district courts to award a defendant's profits without proof of willfulness and actual confusion, section 1117(a) would raise serious due process concerns. *See Haslip*, 499 U.S. at 18 (unlimited judicial discretion "in the fixing of punitive damages may invite extreme results that jar one's constitutional sensibilities"). As one commentator explains, because of the "harsh results frequently produced by the accounting remedy, this rule is reminiscent of a rule applied by some jurisdictions to punitive damages." *Monetary Relief*, 72 TRADEMARK REP. at 501 (footnotes omitted).

Yet, in the Fourth Circuit's view, the "Lanham Act gives little guidance on the equitable principles to be applied by a court in making an award of damages." *Synergistic*, 470 F.3d at 174. Reflecting this concern, other courts have acknowledged that a district court's discretion to award profits "must operate within legally defined parameters," *George Basch Co.*, 968 F.2d at 1537, and that the discretion of courts "to award [monetary] remedies has limits," *ALPO Petfoods*, 913 F.2d at 968. The requirements of intentional infringement and

actual confusion must confine the discretion of courts to conform to basic principles of due process.

## III. THE CRITERIA FOR AWARDING PROFITS UNDER THE LANHAM ACT IS A QUESTION OF RECURRING AND SUBSTANTIAL IMPORTANCE

The extensive circuit disagreement about the profits provision of the Lanham Act undermines a key justification for the Act. The Act reflects congressional awareness that "trade is no longer local, but is national." S. Rep. No. 79-1333, at 5. Congress enacted a national trademark regime precisely because it was not content with trademark rights differing "widely" from one place to another. *Id.* Rather than differing from state to state, trademark law now differs from circuit to circuit. That is not the result Congress intended. To the contrary, Congress wanted the profits provision of the Lanham Act to operate in the same fashion throughout the nation.

With thousands of trademark infringement cases filed each year, an entrenched and long-standing circuit split on the profits provision does great damage to the Lanham Act's aspiration of a federal trademark regime. According to data collected by the Administrative Office of the U.S. Courts, more than 3,000 trademark cases were

commenced each of the past ten years.[7] As the numerous cases discussed above illustrate, the profits provision is a perpetual feature of trademark litigation.

Reflecting its central place in the trademark law regime, many scholars have studied the proper operation of the Lanham Act's profits provision. *See, e.g.*, J. GILSON, TRADEMARK PROTECTION AND PRACTICE § 14.03[6][c](i) (2005); MCCARTHY § 30:62; Danielle Conway-Jones, *Remedying Trademark Infringement: The Role of Bad Faith In Awarding An Accounting of Defendants' Profits*, 42 SANTA CLARA L. REV. 863 (2002); Eugene W. Luciani, *Note, Does The Bad Faith Requirement In Accounting of Profits Damages Make Economic Sense?*, 6 J. INTELL. PROP. L. 69, 78-82 (1998).

Furthermore, the profits provision warrants review by this Court because in certain circuits intellectual property owners are once again gaining rewards far beyond those necessary to promote progress. This Court has repeatedly cautioned against the misuse of intellectual property laws. *See, e.g., Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001) ("careful to caution against misuse or over-extension of trade dress"). Congress struck a delicate balance in trademark law by authorizing an award of a defendant's profits, but only if the award of profits was equitable and not punitive. But, as discussed

---

[7] *See* JUDICIAL BUSINESS OF THE U.S. COURTS, http://www.uscourts.gov/Statistics/JudicialBusiness.aspx.

above, many circuits are permitting trademark owners to walk off with an award of a defendant's profits far too easily. The Court must step in to halt the unwarranted expansion of intellectual property protection at the expense of competitive interests.

## IV. THIS CASE IS AN IDEAL VEHICLE TO CLARIFY THE CRITERIA FOR AWARDING PROFITS UNDER THE LANHAM ACT

This case is an ideal vehicle to clarify whether an award of defendant's profits under the Lanham Act is permissible in the absence of either intentional infringement or actual customer confusion. The record is clear that the jury found no intentional infringement. App. 25a, 43a. So too, the record is clear that the profits award is not based on any actual confusion among customers. App. 26a-27a; *see also* J.A. 1279-80 ("We are not claiming actual damages through lost sales of Mattel."). Nevertheless, the Fourth Circuit affirmed a $1 million defendant's profits award.

* * *

## CONCLUSION

The petition for review should be granted.

Respectfully submitted,

THOMAS ZELLERBACH
KHAI LEQUANG
ORRICK, HERRINGTON
& SUTCLIFFE LLP
1000 Marsh Road
Menlo Park, California
94025
(650) 614-7400

E. JOSHUA ROSENKRANZ
*Counsel of Record*
MARK DAVIES
ORRICK, HERRINGTON
& SUTCLIFFE LLP
51 West 52nd Street
New York, New York
10103
jrosenkranz@orrick.com
(212) 506-5000

November 4, 2010